



Activity Review

North Carolina State Board of Certified Public Accountant Examiners

1101 Oberlin Road, Suite 104, PO Box 12827, Raleigh, NC 27605 (919) 733-4222 Issue No. 9-2002

O. Charlie Chewning, Jr., CPA, Reappointed to Board

Governor Michael F. Easley has reappointed O. Charlie Chewning, Jr., CPA, to the North Carolina State Board of CPA Examiners for a term expiring June 30, 2004.

Chewning, who was initially appointed to the Board in 1998 by then Governor James B. Hunt, Jr., was elected President of the Board August 16, 2002. He previously served as Vice-President of the Board 1999-2000 and 2000-2001.

A native of Lilesville in Anson County, Chewning received his AB degree with a concentration in accounting from Duke University in 1957. He then joined the firm of Lybrand, Ross Bros., & Montgomery, which later became Coopers & Lybrand, LLP.

Chewning, a First Lieutenant in the United States Air Force, was called to active duty in 1958 and served as a navigator with the Strategic Air Command, KC97 Air Refueling, until his discharge in 1960.

Upon his return to civilian life, he joined the firm of Haskins & Sells, which later became Deloitte & Touche, LLP.

Chewning was certified as a North Carolina CPA in 1963 and in 1970, he opened the Raleigh office of Deloitte & Touche, LLP.

He was later named the managing partner of the firm's Raleigh and Charlotte offices. He retired as a Senior Partner of Deloitte & Touche, LLP, in 1994.

Chewning is a member of the American Institute of Certified Public Accountants (AICPA) and the North Carolina Association of Certified Public Accountants (NCACPA).

A member of the NCACPA Board of Directors 1995-1998, Chewning served on the Governmental Affairs & Legislation Committee and the Long Range Planning & Symposium Committee.

Chewning is active with the National Association of State Boards of Accounting (NASBA), serving as a Delegate and as a member of the Examination Review Board.

A member of various civic and charitable organizations in Raleigh and Charlotte, Chewning has served on the Charlotte Chamber of Commerce Board of Advisors, the UNC-Charlotte Belk School of Business Board of Visitors, and the Junior Achievement Board of Directors.

Chewning was President of the Duke University Alumni Association 1984-1985 and served as Director-Treasurer of the Charlotte chapter of the Association for Corporate Growth 1994-1999.

He is currently serving as a Director of CT Communications, Inc. and is Chair of the Audit Committee.

Chewning and his wife, M. Ruth Chewning, have three daughters, Donna, Gina, and Cami, and seven grandchildren.

NOTICE OF PUBLIC RULE-MAKING HEARING

October 18, 2002

Details on Page 2

Board Elects Officers

On August 16, 2002, the members of the NC State Board of CPA Examiners elected officers for 2002-2003.

O. Charlie Chewning, Jr., CPA, of Raleigh, was elected President of the Board. He previously served as Vice President of the Board 1999-2000 and 2001-2002. Appointed to the Board in September 1998, Chewning was reappointed to the Board in August 2002. He retired as a Senior Partner of Deloitte & Touche, LLP, in 1994.

Michael H. Wray, a Public Member from Gaston, was elected Vice President of the Board. He previously served as Vice President of the Board 1998-1999 and Secretary-Treasurer of the Board 1995-1996, 1996-1997, 1997-1998, 1999-2000, and 2001-2002. Wray, who is Secretary-Treasurer of WJ Wray Contractors, Inc., has been a member of the Board since September 1994.

Walter C. Davenport, CPA, of Raleigh, was elected Secretary-Treasurer of the Board. He previously served as President of the Board 1995-1996, 1996-1997, and 1998-1999; and Vice President of the Board 1997-1998. Davenport is a partner with the firm, Cherry, Bekaert, & Holland, L.L.P., and has been a member of the Board since August 1994.

Notice of Proposed Rule-making Hearing

On October 18, 2002, the North Carolina State Board of CPA Examiners will conduct a public rule-making hearing to consider the following actions:

- Amend rules cited as 21 NCAC 8A .0201, .0301; 8F .0101, .0103 .0105, .0110, .0111, .0113, .0504; 8G .0401, .0403 .0404, .0406, .0409; 8H .0101; 8J .0108, .0110, .0111, 8N .0202, .0203, .0205, .0208, .0211, .0302, .0305, and .0402;
- Adopt the rules cited as 8H .0106, 8M .0105, .0106, and .0107; and
- Repeal the rules cited as 21 NCAC 8A .0315; 8M .0101, .0102, .0103, .0104, .0201, .0202, .0204, .0206, .0207, .0301, .0302, .0303, .0304, .0305, .0306, .0401, .0402, and .0403.

To conserve space, only the text affected by the proposed action has been included in this issue of the *Activity Review*; the full text of the proposals is available on the Board's web site (www.state.nc.us/cpabd).

Please refer to the April 1999 edition of the *North Carolina Accountancy Statutes and North Carolina Administrative Code* for the complete text of each rule.

If you wish to comment on the proposed actions, please submit your written comments to Robert N. Brooks, Executive Director, NC State Board of CPA Examiners, PO Box 12827, Raleigh, NC 27605-2827. Comments must be received by October 4, 2002.

The hearing will be conducted at the Board office (1101 Oberlin Road, Suite 104, Raleigh) and will begin at 10:00 a.m.

If you plan to attend the hearing and/or present oral comments relevant to the proposed actions, please notify the Board receptionist by 5:00 p.m. on October 4, 2002, so seating arrangements can be made.

Individuals who wish to make oral comments on the proposals should indicate which proposal(s) they will address and whether they will speak for or against the proposal. Comments will be limited to 10 minutes per individual.

Proposed Rules

21 NCAC 8A .0201, is proposed to be amended to read as follows:

.0201 ELECTION OF OFFICERS

The Board shall annually, prior to August 31 March 31 of each year, elect a President, Vice-President and Secretary-Treasurer. ~~However, in any year when appointments to the Board anticipated under the provisions of G.S. 93-12 have not been made prior to August 31, the election shall be made at the next meeting subsequent to the actual appointments. The current officers, even though their term be expired, shall serve until their successors are elected and qualified.~~

21 NCAC 8A .0301, is proposed to be amended to read as follows:

.0301 DEFINITIONS

(31) "Participating CPA firm" means a CPA firm participating in the SQR program. ~~It does not include CPA firms exempt by reason of 21 NCAC 8M .0102(a) or deemed in compliance pursuant to 21 NCAC 8M .0104;~~

(32)-(31) "Person" means any natural person, corporation, partnership, professional limited liability company, registered limited liability partnership, unincorporated association, or other entity;

(33)-(32) "Professional" means arising out of or related to the particular knowledge or skills associated with CPAs;

(34)-(33) "Projection" means prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position or cash flows that are based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken given such hypothetical assumptions;

(35)-(34) "Referral fee" means compensation for recommending or referring any service of a CPA to any person;

(36)-(35) "Retired," when used to refer to the status of a person, describes one possessing a North Carolina certificate of qualification who verifies to the Board that the applicant does not receive or intend to receive in the future any earned compensation for current personal services in any job whatsoever and will not return to active status. However, retired status does not preclude volunteer services for which the retired CPA receives no direct nor indirect compensation so long as the retired CPA does not sign any documents, related to such services, as a CPA;

(37)-(36) "Revenue Department" means the North Carolina Department of Revenue;

(38)-(37) "Review" means to perform an inquiry and analytical procedures that permit a CPA to determine whether there is a reasonable basis for expressing limited assurance that there are no material modifications that should be made to financial statements in order for them to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting;

(39) "SQR Advisory Committee" means the State Quality Review Advisory Committee to the Board;

(40) "SQR Program" means the State Quality Review Program of the North Carolina State Board of Certified Public Accountant Examiners;

(41) "SQR Review team" means that team of CPAs which reviews a CPA firm pursuant to the requirements of Subchapter 8M. A review team may be comprised of one or more members;

(42) "SQR Review team captain" means that member of a review team who is responsible for the review and supervises the other members of the team;

(43)-(38) "SQR Reviewer" "Reviewer" means a member of a review team including the review team captain;

(44)-(39) "Suspension" means a revocation for a specified period of time. A CPA may be reinstated after a specific period of time if the CPA has met all conditions imposed by the Board at the time of suspension; and (45)-(40) "Trade name" means a name used to designate a business enterprise.

21 NCAC 8A .0315, is proposed to be repealed as follows:

.0315 NEW CPA FIRM, ONGOING CPA FIRM

21 NCAC 8F .0101, is proposed to be amended as follows:

.0101 TIME AND PLACE OF CPA EXAMINATIONS

(d) Effective with the administration of the computer-based CPA Examination, the CPA Examination will be available at sites, dates and times designated by the Board.

21 NCAC 8F .0103, is proposed to be amended as follows:

.0103 FILING OF EXAMINATION APPLICATIONS AND FEES

(g) ~~All applications for re-examination shall be accompanied by three new certificates of moral character. No additional statements and affidavits regarding expe-~~

rience and education shall be required for applications for re-examination.

(l) Effective with the administration of the computer-based CPA Examination, candidates shall file initial and re-exam applications to sit for the CPA Examination.

(m) Effective with the administration of the computer-based CPA Examination, examination fees will be valid for a six-month period from the date of the notice to schedule.

21 NCAC 8F.0105, is proposed to be amended as follows:

.0105 CONDITIONING REQUIREMENTS

(e) Effective with the administration of the computer-based CPA Examination, a candidate is subject to the following requirements:

(1) A candidate shall be required to obtain a minimum score on each section designated as passing by the AICPA and the Board;

(2) A candidate may sit for any section of the examination individually;

(3) A candidate may sit for any section of the examination up to four times during a one-year period but not more than one time in a three-month period;

(4) A candidate shall receive conditional credit on the passage of his or her first section(s) of the examination; such credit(s) shall be valid for an eighteen-month period which begins on the date the first section(s) passed is taken; and

(5) A candidate having earned conditional credits on the paper-and-pencil CPA Examination has until October 31, 2005, or eighteen months after administration of the last paper-and-pencil examination to pass the remaining section(s) before the credits earned under the paper-and-pencil examination expire.

21 NCAC 8F.0110, is proposed to be amended as follows:

.0110 PROCTORING OTHER STATES' JURISDICTIONS' CANDIDATES

(a) As a courtesy to other ~~state accountancy~~ jurisdiction boards, and on their behalf, this Board shall proctor, in North Carolina, candidates taking the CPA examination. The following procedures shall be followed by persons desiring to be proctored in this state.

(b) A request for proctoring shall be on a form provided by the Board and shall contain evidence from the home ~~state accountancy~~ jurisdiction board that it has approved the candidate's examination application and the proctoring request.

(c) The request for proctoring form shall be delivered to the Board office not later than April 1 for the May CPA examination

and not later than October 1 for the November CPA examination.

(d) The approval of the proctoring request shall be at the discretion of the Board and is not promised to any applicant. Factors considered in the decision shall include, but not be limited to, space availability, reasons for the proctoring request, date the application was received, reasons for any previous proctoring requests, and any special circumstances requested by the home ~~state accountancy~~ jurisdiction board or applicant.

(e) Effective with the administration of the computer-based CPA Examination, the Board shall have the discretion to limit other jurisdictions' candidates from testing in any testing center in North Carolina.

21 NCAC 8F.0111, is proposed to be amended as follows:

.0111 INELIGIBILITY DUE TO VIOLATION OF ACCOUNTANCY ACT

(a) A person may not be eligible to take the CPA Examination or receive the North Carolina certificate of qualification as a CPA if the Board determines that the person has engaged in conduct that would constitute a violation of General Statutes Chapter 93 or the Rules of Professional Ethics and Conduct.

(b) Any individual found to have engaged in conduct which subverts, or attempts to subvert the CPA Examination process may, at the discretion of the Board, have his or her scores on the examination withheld and/or declared invalid, be disqualified from holding the CPA certification and may be subject to the imposition of other appropriate sanctions.

(c) Conduct which subverts or attempts to subvert the examination process includes but is not limited to:

(1) conduct which violates the standard of the test administration such as communicating with any other examinee during the administration of the examination;

(2) having in one's possession during the administration of the examination any books, notes, written or printed material, or data of any other kind, other than the distributed examination materials;

(3) failure to cooperate with testing officials;

(4) conduct which violates the credentialing process, such as falsifying or misrepresenting educational credentials or other information required for admission to the examination, impersonating an examinee, or having an impersonator take the examination on another's behalf;

(5) conduct which violates the nondisclosure prohibitions of the exami-

nation or aiding or abetting another in doing so; and

(6) retaking or attempting to retake an examination section by an individual holding a valid CPA certificate in this State or a candidate who has unexpired credit for having already passed the same examination section unless directed to do so by the Board.

21 NCAC 8F.0113, is proposed to be amended as follows:

.0113 CANDIDATE'S REQUEST TO REVIEW UNIFORM CPA EXAMINATION

The Board shall allow a North Carolina candidate the privilege to review the ~~Uniform~~ his or her CPA Examination: within sixty (60) days after the release of the grades in question. ~~The request for a review must be made no later than sixty (60) days after the uniform national grade release date of the examination in question.~~

21 NCAC 8F.0504, is proposed to be amended as follows:

.0504 CANDIDATES' ACCOUNTANCY LAW COURSE REQUIREMENT

(a) Within one year prior to applying for certification, all candidates for original or reciprocal certification must pass an open book examination on the North Carolina Accountancy Statutes and Rules, including the Rules of Professional Ethics and Conduct contained therein.

(b) In lieu of taking the examination, a candidate may complete an eight-hour CPE course on the subject of the examination within one year prior to applying for the CPA certificate. Such course or examination must meet the requirements of 21 NCAC 8G .0404(a). This course may count toward the candidate's annual CPE requirement.

~~(c) A non-resident candidate for a reciprocal application must comply with Paragraph (a) or (b) of this Rule within 120 days of receiving his or her CPA certificate or the certificate shall expire and the individual shall reinstate the certificate pursuant to 21 NCAC 8J .0106.~~

21 NCAC 8G.0401, is proposed to be amended as follows:

.0401 CPE REQUIREMENTS FOR CPAS

(a) In order for a CPA to receive CPE credit for a course:

(2) the course must meet the requirements set out in 21 NCAC 8G .0404(a) or ~~(d)~~ (c); and

(b) The Board ~~approves~~ registers sponsors of CPE courses. ~~and not particular courses.~~ A CPE course provided by an approved or registered sponsor is presumed to meet

the CPE requirements set forth in 21 NCAC 8G .0404(a) if the sponsor has indicated that the course meets those requirements. However, it is up to the individual CPAs attending the course and desiring to claim CPE credit for it to assess whether it increases their professional competency.

(g) Any CPE hours completed during the calendar year in which the certificate is approved may be used for that year's requirement even if the hours were completed before the certificate was granted. When a CPA has completed more than the required number of hours of CPE in any one calendar year, the extra hours, not in excess of 20 hours, may be carried forward and treated as hours earned in the following year. A CPA may not claim CPE credit for courses taken in any year prior to the year of certification.

21 NCAC 8G .0403, is proposed to be amended as follows:

.0403 QUALIFICATION OF CPE SPONSORS

(a) The Board ~~approves~~ registers sponsors of CPE courses and not ~~particular~~ courses. The Board will maintain a list of sponsors which have agreed to conduct programs in accordance with the standards for CPE set forth in 21 NCAC 8G .0404. Such sponsors shall indicate their agreement by signing a CPE program sponsor agreement form provided by the Board. These sponsors are ~~approved~~ registered sponsors.

(b) Notwithstanding Paragraph (a) of this Rule, sponsors of continuing education programs which are listed in good standing on the National Registry of CPE Sponsors maintained by the NASBA are ~~also approved~~ considered to be registered CPE sponsors with the Board. These sponsors, ~~however, do not have to~~ are not required to sign a CPE program sponsor agreement form with this Board.

~~(c) The CPE Advisory Committee to the Board may give its opinion to an approved sponsor of whether a particular course would contribute to the professional competence of some, if not all, CPAs or the course meets the requirements of 21 NCAC 8G .0404(a). If the sponsor disagrees with the committee's opinion, the sponsor may request a declaratory ruling from the Board. The committee's opinion is advisory only and is not binding on the Board.~~

~~(d)~~(c) In the CPE program sponsor agreement with the Board, the ~~approved~~ registered sponsor will agree to:

(1) allow the Board to audit courses offered by the sponsor in order to determine if the sponsor is complying with the terms of the agreement; and shall refund the registration fee if requested.

(3) state the following in every brochure or other publication or announcement concerning a course:

(B) any prerequisites for the course and any advance preparation required for the course; and if none, that should be stated;

~~(e)~~(d) Failure of an ~~approved~~ a registered sponsor to comply with the terms of the CPE program sponsor agreement shall be grounds for the Board to terminate the agreement, to remove the ~~approved~~ registered sponsor's name from the list of ~~approved~~ registered sponsors and to notify the public of this action.

21 NCAC 8G .0404, is proposed to be amended as follows:

.0404 REQUIREMENTS FOR CPE CREDIT

(b) The six fields of study recognized by the Board are ~~based on the subject areas that are set forth in the AICPA National CPE Curriculum. The six fields are~~ accounting and auditing, consulting services, management, personal development, specialized knowledge and applications, and taxation.

(c) ~~In addition to courses sponsored by approved sponsors,~~ The following may qualify as acceptable types of continuing education programs, provided the programs comply with the requirements set forth in Paragraph (a) of this Rule:

(5) correspondence courses that are designed and intended for continuing professional education activity. A CPA may claim credit for a course offered by a non-~~approved~~ -registered sponsor provided that the course meets the requirements of 21 NCAC 8G .0403~~(d)~~ (c), 8G .0404, and 21 NCAC 8G .0409. The CPA shall maintain documentation proving that the course met these standards.

21 NCAC 8G .0406, is proposed to be amended as follows:

.0406 COMPLIANCE WITH CPE REQUIREMENTS

(a) All active CPAs shall file with the Board a completed CPE reporting form by the July 1 renewal date of each year.

(b) If a CPA fails to complete the CPE requirements prior to the end of the previous calendar year but the CPA has completed them by June 30, the Board may, in its discretion:

(1) change the CPA's status from active to conditional, require the payment of a civil penalty of one hundred dollars (\$100.00) and may impose any conditions that the Board considers appropriate in the circumstances, as a penalty for the first such failure within a five calendar year period;

(2) place the CPA on conditional status again and require the payment of a civil penalty of ~~one~~ two hundred fifty dollars ~~(\$100.00)~~ (\$250.00) for the second such failure within a five calendar year period;

21 NCAC 8G .0409, is proposed to be amended as follows:

.0409 COMPUTATION OF CPE CREDITS

(a) Group Courses: Non-College. CPE credit for a group course that is not part of a college curriculum shall be given based on contact hours. A contact hour shall be 50 minutes of instruction. One-half credits shall be equal to 25 minutes after the first credit hour has been earned in a formal learning activity. ~~Credit shall be granted only for full contact hours.~~ For example, a group course lasting 100 minutes shall be two contact hours and thus two CPE credits; . and a A group course lasting between ~~50 and 100~~ 75 minutes shall be only one and one-half contact hours and thus ~~only one and one-half CPE credit.~~ credits. When individual segments of a group course shall be less than 50 minutes, the sum of the individual segments shall be added to determine the number of contact hours. For example, five 30-minute presentations shall be 150 minutes, which shall be three contact hours and three CPE credits. No credit shall be allowed for a segment unless the participant completes the entire segment.

(b) Completing a College Course. CPE credit for completing a college course in the college curriculum shall be granted based on the number of credit hours the college gives the CPA for completing the course. One semester hour of college credit shall be 15 CPE credits; one quarter hour of college credit shall be ten CPE credits; and one continuing education unit (CEU) shall be ten CPE credits. ~~If a college course does not carry credit, CPE credit for the course shall be based on the number of contact hours of the course using the formula set out in Paragraph (a) of this Rule.~~ However, under no circumstances shall CPE credit be given to a CPA who audits a college course.

(c) Self Study. CPE credit for a self-study course shall be given based on the average number of contact hours needed to complete the course. ~~One-half of the~~ The average completion time shall be allowed for CPE credit. A sponsor must determine, on the basis of pre-tests, the average number of contact hours it takes to complete a course. CPE credit for self-study courses shall be limited to no more than 50 percent of a CPA's required CPE credits for a year.

~~(g) Interactive Self-Study. CPE credit for interactive self-study shall be based on a program designed to use interactive learning methodologies that simulate a class-~~

room learning process by employing computer software, other course material, or administrative systems that provide significant ongoing, interactive feedback to the learner regarding their learning progress. The sponsor must determine the CPE credit to be allowed based on the average number of contact hours needed to complete the course.

21 NCAC 8H .0101, is proposed to be amended as follows:

.0101 RECIPROCAL CERTIFICATES

(c) An applicant for a reciprocal certificate shall meet the following requirements:

(1) The applicant has the legal authority to use the CPA title and to practice public accountancy in a jurisdiction.

(2) The applicant has received a passing score of at least 75 on each part of the Uniform CPA Examination.

(d) An applicant applying for a reciprocal certificate under G.S. 93-12(6) must meet the following requirements which the Board considers to be substantially equivalent to those of G.S. 93-12(5):

(2) The applicant:

(A) within 10 years immediately preceding the filing date of the application, has had ~~four~~ two years of experience in the field of accounting under the direct supervision of a CPA who held a valid license during the period of direct supervision in any state or territory of the United States or the District of Columbia; or

(B) has ~~10~~ 8 years of experience in the field of accounting, or ~~10~~ 8 years of experience teaching accounting as defined and calculated in 21 NCAC 8F .0409, or any combination of such experience earned within the 12 years immediately preceding the filing date of the application;

21 NCAC 8H .0106, is proposed to be adopted as follows:

.0103 NON-RESIDENT NOTIFICATION

(a) An individual whose principal place of business is outside this State must notify the Board that he or she intends to perform or offers to perform services in this State as a CPA and such notification shall be made on a form supplied by the Board no later than 30 days after the intent to perform or offer to perform services.

(b) Notification to the Board will be valid until December 31 of each year at which time the individual must renew his or her notification within 30 days or his or her privilege to perform or offer to perform services in this state as a CPA is terminated.

21 NCAC 8J .0108, is proposed to be amended as follows:

.0108 CPA FIRM REGISTRATION

(c) The information provided by the registration shall include:

(1) Either an application for exemption from SQR, peer review, a request to be deemed in compliance with SQR peer review or registration for SQR, peer review, pursuant to 21 NCAC 8M .0102 and .0104; .0105;

(2) For all CPA firms not exempt from the SQR peer review program, with the registration immediately following its review, the affidavit information required by 21 NCAC 8M .0102(d); .0106(a);

21 NCAC 8J .0110, is proposed to be amended as follows:

.0110 REGISTRATION AND SQR FEES

The annual registration fees shall be as follows:

(1) For participation within SQR or for a request to be deemed in compliance with SQR, seventy-five dollars (\$75.00) plus five dollars (\$5.00) for each additional North Carolina office of the CPA firm not excused from SQR by 21 NCAC 8M .0204;

(2)(1) For all professional corporations or professional limited liability companies, twenty-five dollars (\$25.00); and

(3)(2) For all non-incorporated CPA firms which have offices both within and outside the state of North Carolina, whether sole proprietorships, partnerships, or registered limited liability partnerships, an amount equal to two thousand five hundred dollars (\$2,500.00) or the number of CPA members of the CPA firm multiplied by ten dollars (\$10.00), whichever is less.

21 NCAC 8J .0111, is proposed to be amended as follows:

.0111 COMPLIANCE WITH CPA FIRM AND SQR REGISTRATION

If a CPA firm fails to comply with any part of 21 NCAC 8J .0108, or 8J .0110, or 8M .0102; the Board may take disciplinary action against the CPA firm's members. Such discipline may include:

(1) a conditional license upon such conditions as the Board may deem appropriate for non-compliance of less than 60 days;

(2) a conditional license and one hundred dollar (\$100.00) civil penalty for non-compliance in excess of 60 days but not more than 120 days;

(3) a suspension of each member's CPA certificate for a period of not less than 30 days for non-compliance in excess of 120 days.

21 NCAC 8M .0101-.0104, are proposed to be repealed as follows:

.0101 PURPOSE

.0102 REGISTRATION REQUIREMENTS

.0103 PROHIBITION OF ABUSE

.0104 CPA FIRMS DEEMED IN COMPLIANCE

21 NCAC 8M .0201, .0202, .0204, .0206 and .0207, are proposed to be repealed as follows:

.0201 SELECTION OF ENGAGEMENTS TO BE REVIEWED

.0202 NOTICE TO CLIENTS

.0204 CERTAIN OFFICES EXCUSED

.0206 SELECTION OF A REVIEW TEAM

.0207 DUTY TO RESPOND TO QUESTIONS

21 NCAC 8M .0301, .0302, .0303, .0304, .0305, and .0306, are proposed to be repealed as follows:

.0301 QUALIFICATIONS OF REVIEWERS AND TEAM CAPTAINS

.0302 INDEPENDENCE FROM A REVIEWED CPA FIRM

.0303 CONFLICT OF INTEREST

.0304 PERFORMING THE REVIEW - REVIEWER'S DUTIES

.0305 CONFIDENTIALITY

.0306 REPORTING REQUIREMENTS

21 NCAC 8M .0401, .0402 and .0403, are proposed to be repealed as follows:

.0401 SQR ADVISORY COMMITTEE-MEMBERS AND DUTIES

.0402 OBJECTIONS TO SQR ADVISORY COMMITTEE

.0403 REVIEW OF PROTEST

21 NCAC 8M .0105, is proposed to be adopted as follows:

.0105 PEER REVIEW REQUIREMENTS

(a) A CPA or CPA firm providing any of the following services to the public shall participate in an approved peer review program:

- (1) Audits,
- (2) Reviews of financial statements,
- (3) Compilations of financial statements,

(4) Examinations of prospective financial statements,

(5) Compilations of prospective financial statements,

(6) Agreed-upon procedures of prospective financial statements,

(7) Examination of written assertions, and

(8) Agreed-upon procedures of written assertions.

(b) A CPA or CPA firm not providing any of the services listed in (a) above is exempt

from peer review until the issuance of the first report provided to a client.

(c) A CPA, a new CPA firm or a CPA firm exempt from peer review now providing any of the services in (a) above shall furnish to the peer review program their first peer review report, the letter of comments, the letter of response, and any work papers required for the peer review program within 24 months of the issuance of the first report provided to a client.

(d) Participation in and completion of one of the following peer review programs is required:

(1) AICPA Division for CPA Firms SEC Practice Section;

(2) AICPA Peer Review Program;

(3) NCACPA Peer Review Program; and

(4) Any other peer review program approved in advance by the Board.

(e) CPA firms shall not rearrange their structure or act in any manner with the intent to avoid participation in peer review.

(f) A CPA firm which does not have offices in North Carolina and which has not provided any services as listed in (a) above to North Carolina clients is not required to participate in a peer review program.

(g) Subsequent peer reviews of a CPA firm are due three years and six months from the year end of the twelve-month period of the first peer review unless granted an extension by the peer review program and this Board.

21 NCAC 8M .0106, is proposed to be adopted as follows:

.0106 COMPLIANCE

(a) A CPA firm registered for peer review shall provide to the Board the following:

(1) Peer review due date,

(2) Year end date,

(3) Final Letter of Acceptance from peer review program within sixty (60) days of the date of the letter, and

(4) A package to include the Peer Review Report, Letter of Comments, Letter of Response and Final Letter of Acceptance for all modified and adverse reports issued by a peer review program within sixty (60) days of the date of the Final Letter of Acceptance.

(b) A peer review is not complete until the Final Letter of Acceptance is issued by the peer review program with the new due date.

(c) If a CPA firm fails to comply with 8M .0105(c)(d)(g), the Board may take disciplinary action against the CPA firm's members which may include:

(1) a conditional license and one hundred dollars (\$100.00) civil penalty upon conditions as the Board may deem appropriate for non-compliance of less than 60 days;

(2) a conditional license and two hundred fifty dollars (\$250.00) civil penalty for non-compliance in excess of 60 days but not more than 120 days; and

(3) a suspension of each member's CPA certificate for a period of not less than 30 days and a civil penalty of five hundred dollars (\$500.00) for non-compliance in excess of 120 days.

21 NCAC 8M .0107, is proposed to be adopted as follows:

.0107 ETHICAL DUTIES OF REVIEWER

(a) A reviewer shall be independent with respect to the reviewed CPA firm.

(b) Independence is impaired if a reviewer:

(1) performs a peer review of a CPA firm which performed the most recent peer review of the reviewer's CPA firm;

(2) performs a peer review of a CPA firm an employee or member of which performed or participated in the performance of the most recent peer review of the reviewer's CPA firm; or

(3) has any direct or indirect financial interest in a reviewed CPA firm's client and reviews engagements performed for that client.

(c) Paragraph (b) of this Rule does not include all instances where a reviewer's independence would be impaired. In considering whether independence is impaired, the reviewer shall consider the effect of family and other relationships and the possible appearance of loss of independence as a result of those relationships.

(d) A reviewer shall not have a conflict of interest with respect to the reviewed CPA firm or the clients whose engagements are selected for review.

(e) A reviewer shall avoid contacts with the reviewed CPA firm's clients or personnel that could be asserted to be evidence of a conflict of interest.

(f) Information concerning the participating CPA firm or its clients or personnel that is obtained as a consequence of the review is confidential and must not be disclosed to anyone not involved in the peer review process.

21 NCAC 8N .0202, is proposed to be amended as follows:

.0202 DECEPTIVE CONDUCT PROHIBITED

(b) Prohibited Deception. Prohibited conduct under this Section includes but is not limited to deception in:

(3) obtaining or maintaining certification, retired status, or exemption from SQR peer review;

(11) falsifying a review, report, or any required program or checklist of any quality peer review program.

21 NCAC 8N .0203, is proposed to be amended as follows:

.0203 DISCREDITABLE CONDUCT PROHIBITED

(b) Prohibited Discreditable Conduct. Discreditable conduct includes but is not limited to:

(1) acts that reflect adversely on the CPA's honesty, integrity, trustworthiness, good moral character, or fitness as a CPA in other respects;

(2) stating or implying an ability to improperly influence a governmental agency or official; or

(3) failing to comply with any order issued by the Board; ; or

(4) failing to fulfill the terms of a peer review engagement contract.

21 NCAC 8N .0205, is proposed to be amended as follows:

.0205 CONFIDENTIALITY

(b) Exceptions. This Rule shall not be construed:

(4) to preclude the disclosure of ~~to~~ ~~disclose~~ confidential client information necessary for the SQR peer review process or for any quality review program; ; or

(5) to preclude the CPA from assisting the Board in enforcing the accountancy statutes and rules.

21 NCAC 8N .0208, is proposed to be amended as follows:

.0208 REPORTING CONVICTIONS, JUDGMENTS, AND DISCIPLINARY ACTIONS

(b) Civil Actions. A CPA shall notify the Board within 30 days of any judgment or settlement in a civil suit, bankruptcy action, administrative proceeding, or binding arbitration, the basis of which is grounded upon an allegation of professional negligence, gross negligence, dishonesty, fraud, misrepresentation, incompetence, or violation of any federal or state tax law and which was brought against either the CPA or a North Carolina office of a CPA firm of which the CPA was a managing partner.

21 NCAC 8N .0211, is proposed to be amended as follows:

.0211 RESPONSIBILITIES IN TAX PRACTICE

(b) Statements on ~~Responsibilities~~ Standards for Tax Services. The Statements on ~~Responsibilities in Tax Practice~~ Standards for Tax Services issued by the AICPA,

including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for tax services for the purposes of Paragraph (a) of this Rule.

(d) Copies of Standards. Copies of the ~~Statements of Responsibilities in Tax Practice~~ on Standards for Tax Services may be inspected in the offices of the Board, as described in 21 NCAC 8A .0102. Copies may be obtained from the AICPA, 1211 Avenue of the Americas, New York, NY 10036 as part of the "AICPA Professional Standards." They are available at cost, which is approximately twenty-eight dollars (\$28.00) in paperback form or two hundred dollars (\$200.00) in looseleaf subscription form.

21 NCAC 8N .0302, is proposed to be amended as follows:

.0302 FORMS OF PRACTICE

(b) Authorized Ownership. A CPA firm may have a minority ownership of up to 49 percent owned by non-CPAs ~~with the exception of Professional Corporations or organized under G.S. 55B or Professional Limited Liability Companies organized under G.S. 57C which shall not have any non-CPA ownership.~~ A CPA firm shall have majority ownership of at least 51 percent and be controlled in law and fact by holders of valid CPA certificates who have the unrestricted privilege to use the CPA title and to practice public accountancy in a jurisdiction and at least one whom shall be licensed by this Board.

(c) CPA Firm Registration Required. A CPA shall not offer or render professional services through a CPA firm which is in violation of the registration requirements of 21 NCAC 8J .0108, 8J .0110, or 8M .~~0102~~.0101.

21 NCAC 8N .0305, is proposed to be amended as follows:

.0305 RETENTION OF CLIENT RECORDS

(a) Return upon Demand. A CPA must return client records in his or her possession to the client after a demand is made for their return. If the client is a partnership, records shall be returned upon request to any of its general partners. If the client is a limited partnership or a registered limited liability partnership, records shall be returned upon request to the general partner(s) and the managing partner or his or her designated individual respectively. If the client is a corporation, records shall be returned upon request to its president.

If the client is a limited liability company, records shall be returned upon request to the manager. Joint records shall be returned upon request to any party. The records must be returned immediately upon demand unless circumstances make some delay reasonable in order to retrieve a closed file or to extract the CPA's work papers described in Paragraph (e) of this Rule. If the records cannot be returned immediately upon demand, the CPA shall immediately notify the client of the date the records will be returned. Nothing in this Rule shall be interpreted to require a CPA to pay delivery costs when the records are returned to the client and the business does not sell or serve to the CPAs.

21 NCAC 8N .0402, is proposed to be amended as follows:

.0402 INDEPENDENCE

(b) Independence ~~is~~ shall be considered to be impaired if, ~~for example,~~ during the period of the professional engagement, ~~or at the time of issuing the report, the CPA or the CPA's firm:~~ a covered individual:

(2) was a trustee of any trust or executor or administrator of any estate that had or was committed to acquire any direct or material indirect financial interest in the client; and

(A) The covered individual had the authority to make investment decisions for the trust or estate; or

(B) The trust or estate owned more than ten percent of the client's outstanding equity securities or other ownership interests or the value of the trust's or estate's holdings in the client exceeded ten percent of the total assets of the trust or estate.

(3) ~~had a joint or closely held business investment with the client or any officer, director, or principal stockholder thereof which that was material in relation to the net worth of the client, the CPA, or the CPA's firm;~~ or covered individual; or

(4) had any loan to or from the client or any officer, director, ~~or principal stockholder thereof~~ other than loans of the following kinds made by a financial institution under normal lending procedures, terms, and requirements: of the client, or any individual owning ten percent or more of the client's outstanding equity securities or other ownership interests.

(A) ~~loans obtained by the CPA or the CPA's firm which are not material in relation to the net worth of the borrower;~~

(B) ~~home mortgages; and~~

(C) ~~other secured loans; except those secured solely by a guarantee~~

(c) Independence shall be considered to be impaired if during the period of the professional engagement, a shareholder, a member, a partner or professional employee of the firm, his or her immediate family, or any group of such persons acting together owned more than five percent of a client's outstanding equity securities or other ownership interests.

~~(c)(d) Independence will also~~ shall be considered to be impaired if, during the period covered by the financial statements, or during the period of the professional engagement, ~~or at the time of issuing the report, the CPA:~~ a shareholder, a member, a partner or professional employee of the firm was simultaneously associated with the client as a(n):

(1) ~~was connected with the client as a promoter, underwriter, voting trustee, director,~~ Director, officer, employee, or in any capacity equivalent to that of a member of management ~~or of an employee; or;~~

(2) Promoter, underwriter, or voting trustee; or

~~(2)(3) -was a trustee~~ Trustee for any person pension or profit-sharing trust of the client.

(e) "covered person" is:

(1) A person on the attest engagement team;

(2) A person in a position to influence the attest engagement;

(3) A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten hours of nonattest services to the client within any fiscal year and ending on the later of the date;

(A) the firm signs the report on the financial statements for the fiscal year during which those services were provided; or

(B) he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis;

(4) A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;

(5) The firm, including the firm's employee benefit plans;

(6) An entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles (GAAP) for consolidation purposes) by any of the individuals or entities described in (a) through (e) of this rule or by two or more such individuals or entities if they act together;

~~(d)(f)~~ The examples in this Rule are not intended to be all-inclusive.



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